



# Reserves Policy

<b>Approval Body:</b>	Finance Committee
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<b>Review Date:</b>	Annually in autumn term
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<b>Version</b>	<b>Reviewed</b>	<b>Changes since last version</b>
1	March 2018	<ul style="list-style-type: none"> <li>• Existing policy</li> </ul>
2	March 2020	<ul style="list-style-type: none"> <li>• Minor changes</li> </ul>
3	March 2021	<ul style="list-style-type: none"> <li>• Minor changes (AFH2020)</li> </ul>
4	March 2022	<ul style="list-style-type: none"> <li>• Minor changes - Academy Handbook 2021</li> </ul>

## **1. Background**

Charities are required to establish a reserves policy in order to protect their operations. However, regardless of the regulatory requirement, establishing reserves that protect the operation of the Trust and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework.

This paper sets out some principles that the Trust is recommended to adopt and presents a detailed policy for the MST Board to consider. The regulatory framework within which the policy has to be set is contained in Appendix A.

## **2. Principles**

The policy takes into account the following principles:

- 1.** Reserves must have a specific purpose related to future spending or covering current and future risks
- 2.** The size of the reserves should balance the benefit of current spending with the risks the reserves cover
- 3.** They should be transparent and maintain the link with the purposes for which the income was given.
- 4.** They should ensure that sufficient resources are available so that unexpected events can be accommodated without causing current year problems, generating a deficit or cash flow issues.

Whilst the Department for Education require reserves to be limited to a level where its use in the future is known, there is an overriding need to ensure that value for money is also achieved.

### **Purposes for Reserves**

The following purposes are considered appropriate for a Multi-academy Trust:

1. Current Reserves that are established to manage known risks which are not insurable or where insurance does not provide value for money
2. Equalisation reserves set up to smooth out irregular spending
3. Specific Capital Reserves established in order to fund capital expenditure and other investments that would not be affordable if financed from a single year's funding.
4. General Revenue Reserve to provide for unexpected and unpredictable needs.
5. Cash Flow Management Reserves used to enable variable cash demands across the Trust or specific parts of the Trust to be managed

### **3. Reserves Held by Mulberry Schools Trust**

The trust holds, Restricted Reserves (capital and revenue) and Unrestricted Reserves.

The medium term financial plan illustrates how this reserve is expected to be used over the next 3 years to manage a real terms decrease in funding.

#### **Cash Flow Management Reserves**

There are currently no reserves of this nature.

#### **Note on Ownership of Funds**

Regardless of the bank accounts that hold them, the reserves will continue to be owned by the schools that provided the money to establish them. The only exceptions will be where (perhaps in future) schools explicitly provide contributions to Trust wide reserves.

### **4. Charities and Education Funding Agency Accounting Requirements**

The Trust is required to report in its accounts the level of reserves held split between the restricted general funds, restricted capital fund and unrestricted fund. The Trust has discretion to move resources from unrestricted to restricted funds but not in the other direction and can transfer from restricted general funds to restricted capital funds.

As the Trust's entire operations are for education services all resources whether restricted or not would be used to support the same purpose. Therefore, the distinction between them has not influenced the policy below. This may change in the future particularly if community activities increase. In which case, this policy will be reviewed.

### **5. Policy on minimum level of reserves and interschool loans**

The trust must agree a policy on a minimum level of overall reserves to be held by the trust, it is proposed that a minimum amount of £500k reserves for the trust overall is maintained as a reserve for unforeseen future pressures across the trust in any given academic year. It is to be noted that currently the 'Trust' reserve is exclusively Mulberry School for Girls reserve. It is proposed that when individual schools start to pay a central contribution of up to 5% that this will allow a central Trust reserve to be created. It is also proposed that each school should aim towards building a school reserve of a minimum of 5% of its annual General Annual Grant (GAG) funding.

If the minimum level of reserve is breached in any given financial year (either at trust level or at an individual school level), it will be required that the minimum level of reserve has to be reinstated via a financial action/mitigation plan over the next academic year, or by exception a period longer than 12 months if trustees deem this appropriate.

Trustees will also agree an interschool loan and a repayment period if an individual school were to fall into deficit at the end of any given academic year. This would be assessed on a case by case basis and will be subject to full board approval.

## **Regulatory Framework**

The rules established by the Department of Education in relation to reserves is set out in the Funding Agreements with the Trust and in the Academies Financial Handbook. The relevant paragraphs are set out below:

### **Master Funding Agreement**

4.14 At the end of any Academy Financial Year the Academy Trust may carry forward unspent GAG from previous Academy Financial Years without limit (unless a limit is specified in the Academy Handbook, or otherwise as specified in writing by the Secretary of State, in which case that limit will apply).

4.15 The Academy Trust must use any GAG carried forward only for the purposes of GAG as set out in this agreement, or otherwise as specified in the Academy Handbook or in writing by the Secretary of State.

4.16 Any additional grant provided for an Academy's Start-Up Period may be carried forward, without limitation or deduction, until the Start-Up Period ends.

4.17 Any unspent grant not allowed to be carried forward under clauses 4.14 – 4.16 and 3.L of the relevant Supplemental Agreement may be taken into account in the payment of subsequent grant.

### **Supplemental Funding Agreement**

3.L Any additional grant made in accordance with clause 3.I, for a period after the Secretary of State has served a Termination Notice or a Termination Warning Notice under this Agreement, or otherwise terminates the Master Agreement, may be carried forward without limitation or deduction until the circumstances set out in clause 3.I cease to apply or the Academy closes.

### **Academy Handbook 2021**

#### **Managing surplus GAG**

ESFA previously set limits on the amount of GAG that could be carried forward by trusts from year-to-year. These limits have now been removed for eligible academy trusts (see section 5.29). Trusts should use their allocated GAG funding for the full benefit of their current pupils. If a trust has a substantial surplus they should have a clear plan for how it will be used to benefit their pupils, for example a long-term capital project.

ESFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.